

## Message Text

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ACTION NEA-06

INFO OCT-01 SS-14 ISO-00 NSCE-00 NSC-10 CIAE-00 INR-10

NSAE-00 RSC-01 L-02 EB-03 AID-10 TRSE-00 OMB-01 IGA-01

ABF-01 CIEP-01 DRC-01 PRS-01 /063 W

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P R 110245Z SEP 73

FM AMEMBASSY KATHMANDU

TO SECSTATE WASHDC PRIORITY 6308

INFO AMEMBASSY NEW DELHI

AMEMBASSY TEHRAN

C O N F I D E N T I A L KATHMANDU 3874

LIMDIS

TEHRAN FOR AMBASSADOR CARGO FROM CHARGE

E.O. 11652: GDS

TAGS: EFIN, NP, IN

SUBJECT: INDO-U.S. RUPEE NEGOTIATIONS: RUPEES FOR NEPAL

1. USAID DIRECTOR IDE HAS JUST RETURNED AFTER BRIEFINGS COVERING ABOVE SUBJECT IN WASHINGTON AND DELHI. JUDGING FROM HIS REPORT TO ME, THIS SEEMS OPPORTUNE TIME TO WEIGH IN WITH MY OWN VIEWS AS TO HOW CURRENT RUPEE NEGOTIATIONS INTERACT WITH OUR INTERESTS IN NEPAL. I REALIZE THESE INTERESTS MAY NOT LOOM VERY LARGE IN TERMS OF U.S. INTEREST IN OBTAINING OVERALL RUPEE SETTLEMENT WITH INDIANS, BUT NEVERTHELESS I SHOULD LIKE TO PUT THEM IN THE HOPPER FOR WHATEVER CONSIDERATION THEY MERIT IN DETERMINING OUR NEGOTIATING STRATEGY FROM HERE ON OUT.

2. IN TERMS OF TOTALITY OF U.S. INTERESTS IN NEPAL, THE ESSENTIAL THING IS THAT WE MAINTAIN OUR ABILITY TO SUSTAIN ROUGHLY OUR PRESENT AID LEVEL TO NEPAL OVER THE YEARS TO COME. U.S. BILATERAL AID HAS BEEN THE BACKBONE OF OUR PRESENCE IN THE PAST AND THIS PRESENCE HAS  
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DEMONSTRABLY CONTRIBUTED TO REGIONAL STABILITY AS WELL AS

TO NEPAL'S ECONOMIC DEVELOPMENT. WHETHER THIS PROGRAM CAN BETTER BE FUNDED WITH RUPEES OR DOLLARS IS A SECONDARY ISSUE AS FAR AS OUR BILATERAL INTERESTS IN NEPAL ARE CONCERNED.

3. THERE IS HOWEVER A POLITICAL ARGUMENT WHICH MAY NOT YET HAVE BEEN TAKEN INTO ACCOUNT IN FORMULATING OUR NEGOTIATING STRATEGY. DURING THE PAST COUPLE OF YEARS WE HAVE BEEN CONDITIONING TOP NEPALESE LEADERS TO ACCEPT FACT THAT WE WERE GOING THROUGH A TRANSITION FROM RUPEE TO DOLLAR FINANCING OF OUR AID PROGRAM. AT FIRST THESE LEADERS FEARED THAT THIS WOULD LEAD TO SHARP DIMINUTION OF OUR TOTAL AID. ONCE THEY WERE REASSURED ON THIS POINT, THEY GREETED PROPOSED SWITCH-OVER TO DOLLAR FINANCING WITH ENTHUSIASM, ON ASSUMPTION THAT OUR AID PROGRAM WOULD HENCEFORTH BE MORE TRULY BILATERAL AND LESS SUBJECT TO INDIAN INFLUENCE THAN BEFORE. RECOGNIZING THAT THEIR FEELING THAT A RUPEE FUNDED AID PROGRAM WAS INDIAN INFLUENCED WAS LARGELY UNFOUNDED, AND GRANTED THAT IF WE REVERT TO AN AID PROGRAM ALMOST ENTIRELY FUNDED BY RUPEES WE OUGHT TO BE ABLE TO PERSUADE THE TOP OFFICIALS THAT CONTROL OF THE PROGRAM WILL REMAIN TOTALLY IN OUR HANDS, IT WILL STILL BE DIFFICULT TO AVOID SOME PUBLIC REACTION HERE THAT REVERSION TO RUPEE FINANCING IMPLIES AN UNWELCOME REVERSION TO A POLITICAL ATTITUDE IN WASHINGTON THAT "SEES NEPAL THROUGH INDIAN EYES."

4. OFFSETTING FOREGOING ARGUMENT AGAINST FUTURE RUPEE FINANCING ARE COGENT ECONOMIC ARGUMENTS: RUPEE FINANCING SAVES AMERICAN TAXPAYERS REAL RESOURCES AND SAVES U.S. FOREIGN EXCHANGE; FURTHERMORE IN NEPAL'S UNIQUE SITUATION, RUPEES ARE GENERALLY AS USEFUL TO US IN OUR AID PROGRAM IN NEPAL AS DOLLARS ARE.

5. AS I UNDERSTAND THE CURRENT STATE OF PLAY, INDIANS ARE BEING VERY STICKY ABOUT AGREEING TO ANYTHING LIKE TEN MORE YEARS OF RUPEE FINANCING FOR OUR AID PROGRAM, BUT ARE LIKELY TO AGREE TO A SUBSTANTIALLY LOWER FIGURE. QUESTION THEREFORE IS WHETHER WE SHOULD NOT SETTLE FOR, SAY, THREE TO FIVE YEARS ON THIS POINT IN ORDER GET  
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INDIANS ON BOARD RE OTHER STICKING POINTS. IN THIS CONNECTION, DEPARTMENT WILL RECALL THAT QUESTION OF THE FAMOUS \$8 MILLION TRANCHE FOR FY 72 STILL HANGING FIRE. IT SEEMS TO ME THAT IF GOI WERE TO AGREE TO SAY THREE YEARS, THEY COULD PRESENT THIS TO LOK SABHA AS CONSTITUTING THREE ANNUAL TRANCHES ENDING IN FY 74, APPROXIMATELY THE PERIOD IMMEDIATELY PRECEDING HOPED-FOR FINAL RUPEE SETTLEMENT, AND SCORE POINTS BY SAYING AGREE-

MENT WRAPPED UP THIS BUSINESS OF PAYING FOR U.S. AID TO NEPAL ONCE AND FOR ALL. WE COULD PRESENT IT HERE TO NEPALESE AS FINAL WIND-UP OF RUPEE FINANCING, ON TERMS WHICH WOULD GIVE US ADDED FLEXIBILITY IN YEARS TO COME SINCE EXISTING RUPEE PIPELINE WOULD BE REPLENISHED BY THIS INFUSION, WHILE WE COMPLETED TRANSITION TO A DOLLAR FINANCED PROGRAM. AND WHAT IT WOULD MEAN IN REAL RESOURCE TERMS WOULD BE GOI ACCEPTANCE OF OUR USING \$24 MILLION MORE IN INDIAN RUPEES TO FINANCE FUTURE AID TO NEPAL, A NOT INCONSIDERABLE SUM IN CONTEXT CURRENT AID LEVELS.

6. IN TERMS OF THE FOREGOING OPTICS, THIS WOULD REQUIRE CONTINUATION THROUGH FY 74 OF LONG-STANDING PRACTICE OF INDIANS AGREEING TO ANNUAL TRANCHES OF PL 480, RPT PL 480 RUPEES, PRIOR TO ACHIEVEMENT OF OVERALL SETTLEMENT, BUT SEEN TO BE EITHER A PART OF THAT SETTLEMENT OR AN ESSENTIAL PREREQUISITE FOR IT. THE POLITICAL REQUIREMENTS MET BY THIS APPROACH COULD NOT REPEAT NOT EQUALLY WELL BE MET BY CLAUSE IN AGREEMENT RECOGNIZING INDIAN OBLIGATION PROVIDE RUPEES IN FUTURE ON SOME ANNUAL OR OTHER AGREED BASIS. IN OTHER WORDS, OUR POLITICAL REQUIREMENT IN NEPAL IS BEST SERVED BY AN AGREEMENT THAT SAYS, IN EFFECT, THAT WE CAN HAVE SOME MORE OLD INDIAN MONEY FOR NEPAL BUT NO NEW INDIAN MONEY, SINCE THE OLD RELATIONSHIP IS DEAD. I SHOULD THINK THE INDIAN NEGOTIATORS WOULD FIND THIS VERY ATTRACTIVE ALSO. (PERHAPS SO MUCH SO THAT THEY WOULD AGREE TO A HIGHER AMOUNT OF OLD MONEY -- SAY \$40 MILLION -- THAN THE \$24 MILLION WE HAVE BEEN TALKING ABOUT -- BUT THIS IS BEYOND MY COMPETENCE TO JUDGE.)

7. I AM SURE AMBASSADOR CARGO, WHO IS DUE TO ARRIVE NEXT SATURDAY, WILL SHARE MY INTEREST IN RECEIVING ANY COMMENTS ADDRESSEES CARE TO MAKE REGARDING FOREGOING SUGGESTION.  
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## Message Attributes

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**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
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**Disposition Authority:** garlanwa  
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**Disposition Comment:** 25 YEAR REVIEW  
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